

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Periodic Reporting  
(UPS Proposals One, Two, and Three)

Docket No. RM2016-2

CHAIRMAN'S INFORMATION REQUEST NO. 2

(Issued November 20, 2015)

To assist in the evaluation of the Petition of United Parcel Service, Inc. (UPS) concerning changes in analytical principles,<sup>1</sup> the Postal Service is requested to provide written responses to the following questions. Answers shall be provided no later than December 3, 2015.

**Proposal One**

1. UPS states that “[i]nframarginal costs are variable costs that exist in the many areas of operations in which the Postal Service enjoys economies of scale that take the form of a cost structure in which the unit cost of handling additional mail pieces declines as overall mail volumes increase.” Petition, Report of Dr. Neels at 10. Please confirm that the Postal Service currently has increasing economies of scale and decreasing marginal costs.
2. Please explain whether the Postal Service has ever attempted to distribute inframarginal costs to its products. If the Postal Service has made such attempts, please provide an explanation of the results, a description of the methodology used, and all supporting workpapers.

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<sup>1</sup> Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, October 8, 2015 (Petition). To support each of its proposals, UPS also submitted the Report of Dr. Kevin Neels Concerning UPS Proposals One, Two, and Three (Report of Dr. Kevin Neels) with the Petition.

3. In its Petition, UPS discusses the basis for its conclusion that Proposal One complies with the requirements of 39 U.S.C. § 3633. Petition, Proposal One at 12. UPS also notes that its proposals “necessarily implicate letter mail costs as well.” Petition at 21.
  - a. Please discuss whether the Postal Service agrees with UPS’s conclusion that Proposal One complies with the requirements of 39 U.S.C. § 3633, and why or why not.
  - b. Please discuss whether Proposal One also complies with the requirements of 39 U.S.C. § 3622, with particular emphasis on whether the proposal complies with the “reliably identified causal relationships” requirement of 39 U.S.C. § 3622(c)(2).

### **Proposal Two**

4. Please provide an explanation of the methodology the Postal Service uses to determine whether costs are fixed.

By the Acting Chairman.

Robert G. Taub